



UNIVERSITI PUTRA MALAYSIA

**NON-PRICE DETERMINANTS OF INTENTION TO PURCHASE
COUNTERFEITED GOODS: A MALAYSIAN PERSPECTIVE**

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By

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Thesis Submitted to the Graduate School of Management, Universiti Putra Malaysia,
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October 2003

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Faculty: Graduate School of Management

Counterfeiting industry especially in optical media products is a serious problem in Malaysia. It was reported that Malaysia lost about RM300 million a year due to this illegal activities (BSA, 2000). In Malaysia, counterfeited goods are pirated software and VCD, branded luxury clothes, watches, leather goods, drugs, and automobile spare parts which are commonly available in Malaysian open market especially at 'pasar malam', street market or even at the shopping mall outlets.

The counterfeited goods become popular among consumer due to its large differential pricing as compared to the original version. Consumers received value for money and permit them experienced or owned a reputable branded article at a low cost. However, the determinants on intention to purchase counterfeited goods do not solely depend on price differential.

Therefore, the purpose of the study is to investigate the non-price determinants on intention to purchase counterfeited goods. Previous studies demonstrated that the less respect of consumers for the law, the more tendency for them to purchase counterfeited goods. Studies also indicated that, consumers' intentions to purchase

counterfeited goods are also motivated by other factors such as demographics, psychographics, product attributes, and situational factors. The current study attempts to apply the previous study in Malaysian perspectives, among young generation. The study uses four product categories that are commonly counterfeited/pirated in Malaysia namely, optical media products, luxury goods, perfumes, and watches.

This study uses Universiti Utara Malaysia's students and working adults in Penang Island as respondents. These respondents were conveniently selected because they were exposed to counterfeit due to ease availability of the goods in their vicinity. A set of multi-item scale of questionnaire was distributed to the respondents to get their response on the counterfeits purchasing behavior.

The findings from the study show that the respondents are having favorable attitudes toward counterfeiting due to their belief in sharing culture. Their attitude toward counterfeiting is a main reason why consumers prefer to buy counterfeited goods (optical media products, luxury branded goods, perfumes, and watches). However, attitude toward the lawfulness is not a determinant on intention to purchase counterfeited goods. Among the variables under study, product attribute dimension is more dominant in influencing the intention to purchase counterfeited goods especially for physical appearance, utility purpose, and perceived fashion content. However, further study can be done focusing on these variable plus potential variables and more sophisticated statistical techniques are required to better understand the consumer behavior toward counterfeited goods.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi sebahagian keperluan untuk Ijazah Master Sains

**PENENTU-PENENTU BUKAN HARGA TERHADAP NIAT MEMBELI
PRODUK-PRODUK TIRUAN: PERSPEKTIF MALAYSIA**

Oleh

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Oktober 2003

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Industri barangan tiruan terutamanya dalam produk media optik merupakan salah satu masalah yang serius di Malaysia. Dilaporkan, Malaysia mengalami kerugian hampir RM 300 juta setahun hasil daripada aktiviti haram ini (BSA, 2000). Di Malaysia, barangan tiruan yang mudah didapati terdiri daripada perisian dan VCD cetak rompak, barangan pakaian berjenama, jam tangan, barangan kulit, ubat-ubatan, dan alat ganti kenderaan yang amat mudah didapati di pasaran terbuka Malaysia terutamanya di pasar malam, peniagaan jalanan, mahupun di kedai-kedai di pusat membeli belah.

Barangan tiruan menjadi popular di kalangan pengguna disebabkan jurang harga yang ketara berbanding jenama asli. Para pengguna memperoleh nilai pada wang dan membolehkan mereka menikmati atau memiliki barangan jenama bereputasi pada harga yang rendah. Bagaimanapun, penentu kepada niat membeli barangan tiruan tidak semata-mata bergantung kepada perbezaan harga.

Oleh yang demikian, tujuan kajian ini adalah untuk mengkaji penentu-penentu bukan harga terhadap niat membeli barangan tiruan. Kajian terdahulu mendapati bahawa

semakin kurang rasa hormat seseorang pengguna terhadap undang-undang maka semakin tinggi kebarangkaliannya untuk membeli barangan tiruan. Kajian juga menjelaskan bahawa niat membeli pengguna terhadap barangan tiruan juga dipengaruhi oleh faktor-faktor lain seperti demografik, psikografik, sifat-sifat barangan, dan juga keadaan. Kajian ini cuba untuk mengaplikasikan kajian terdahulu dalam perspektif Malaysia, di kalangan golongan muda-mudi. Kajian ini menggunakan empat kategori produk yang kerap kali ditiru atau di cetak rompak di Malaysia. Kategori produk tersebut adalah barangan media optikal, barangan berjenama mahal, minyak pewangi, dan juga jam tangan.

Kajian ini menggunakan para pelajar Universiti Utara Malaysia dan juga pekerja-pekerja remaja di Pulau Pinang sebagai responden. Responden-responden ini dipilih secara mudah kerana mereka terdedah kepada barangan tiruan ini disebabkan ia mudah didapati di kawasan-kawasan responden. Satu set soal-selidik berskala pelbagai-item diedarkan kepada setiap responden untuk mendapatkan respon mereka terhadap gelagat pembelian barangan tiruan.

Dapatan kajian menunjukkan bahawa responden mempunyai sikap yang positif terhadap amalan tiruan didorong oleh kepercayaan kepada budaya perkongsian. Sikap terhadap amalan tiruan ini merupakan penyebab utama yang mendorong pengguna membeli barangan tiruan (barangan media optikal, barangan berjenama mahal, minyak wangi, dan jam tangan). Bagaimanapun, sikap terhadap undang-undang bukanlah menjadi penentu kepada niat untuk membeli barangan tiruan. Daripada pembolehubah yang dikaji, dimensi sifat produk adalah lebih dominan dalam mempengaruhi niat membeli barangan tiruan terutamanya bagi penampilan

fizikal, tujuan kegunaan, dan fesyen dijangka. Bagaimanapun, kajian lanjut boleh dilakukan dengan menumpukan kepada pembolehubah-pembolehubah ini beserta pembolehubah-pembolehubah yang berpotensi dan teknik-teknik statistik yang lebih canggih masih diperlukan dalam meningkatkan kefahaman kita terhadap gelagat pengguna ke atas barangan tiruan.

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I certify that an Examination Committee met on 13th August, 2003 to conduct the final examination of **Hasnizam B. Shaari** on his **Master of Science** thesis entitled “**Non-Price Determinants of Intention to Purchase Counterfeited Goods: A Malaysian Perspective**” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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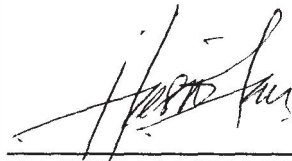
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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or currently submitted for any other degree at UPM or other institutions.



HASNIZAM BIN SHAARI

Date: 14 OCTOBER 2003

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LIST OF ABBREVIATIONS

BSA	Business Software Alliance
CD	Compact Disk
CD-ROM	Compact Disk-Read Only Memory
FICCI	Federation of Indian Chambers of Commerce and Industry
FOMCA	Federation of Malaysian Consumer Association
IIPA	International Intellectual Property Alliance
IPR	Intellectual Property Right
IT	Information Technology
MDTCA	Ministry of Domestic Trade and Consumer Affairs
MIPA	Malaysian Intellectual Property Laws
MNC	Multinational Company
NGO	Non-government Organization
OECD	Organization for Economics Co-operation and Development
PAPITA	Persatuan Penyanyi Pemuzik dan Penulis Lagu Tanah Air
PFC	Perceived Fashion Content
P&G	Procter and Gamble
RIM	Recording Industry of Malaysia
RM	Ringgit Malaysia
TRA	Theory of Reasoned Action
TRIPS	Trade Related Aspects of Intellectual Property Rights
UUM	Universiti Utara Malaysia
VCD	Video Compact Disk
LSM	Levi's Strauss (Malaysia)

CHAPTER 1

RESEARCH OVERVIEW

1.0 Introduction

This chapter will discuss an overview of the whole thesis. This includes the background, problem statement, objectives, the significance, scope of the study, and organization of the thesis.

1.1 Background Of The Study

The law takes the position that counterfeits may harm society at large, especially when the counterfeited item is not a direct copy in quality, but only packaged or manufactured to look like the originals. It will become worse as consumer did not notice that they bought a counterfeits which were sold at near the price of originals. Consumers totally cannot judge the quality and are misled by the brand name, trademark (including logos, symbols, etc.) or trade dress, then they may think the counterfeited goods as the original. Inferior quality such as in counterfeited drugs, automobile parts, foods, and in electrical/electronics parts may harm consumers when these counterfeits are malfunction.

However, in dealing with consumer behavior, we cannot simply blame consumers that they can detect the counterfeits based on its low prices (Wilke and Zaichkowsky, 1999). From consumer point of views, they may assume it is stolen merchandise (from warehouse) or they may think the seller has obtained the goods through parallel import arrangements, because it is not unusual for goods sold at lower price in a domestic market. And the other reason, consumer actually may not know what

is a reasonable price for that particular items. Such a case usually referred to as piracy (Wilke and Zaichkowsky, 1999).

Malaysia's software industry is seriously threatened by piracy problem. It was reported that Malaysia losses RM 319 million in 1999 due to this piracy problem which rank as number one among Asian countries (Business Software Alliance-BSA). Product piracy or counterfeits are not only affecting the software industry but many more industries such as music, clothes/garments, cosmetics, watches, books, auto parts, mobile accessories, leather goods, and prescription drugs. In short, piracy is defined as the production of copies that are identically packaged, including trademark and labeling, copied so as to seem to a customer the genuine article (Kay, 1990).

Piracy is the global issue discussed around the world and seems to be a never-ending story. Almost USD 200 billion a year losses reported in US alone due to piracy and counterfeits industries, which include USD 30 billion for duties and excise losses, but what is almost impossible to value is the damage incurred on a company by the dilution of its brands (Nia and Zaichkowsky, 2000). Counterfeited goods are not only involve product with a synonymous brand name, attributes or flavors, but also product with high technology requirement and high level of research and development (such as automobile parts casting). In Hong Kong and Singapore the past decade has been one of notable achievements in controlling piracy but this progress has to be set against the continued and rampant piracy evident in Thailand, Taiwan, Korea, and China. Law and regulation alone could not prevent the problem effectively and need to be revised over times. In Malaysia for an example, Copyright

Act 1987 and Trade Description Act 1972 were applied in order to control the piracy of software and multimedia product. The question is, why counterfeited goods still available in the marketplace despite the preventive measure taken in Malaysia? Answer to this question will lead us to narrow down our focus on the demand side of customer i.e., to understanding consumer behavior on why do consumers prefer to buy counterfeits.

1.2 Problem Statement

In response to the rapid growth of the piracy industry, especially in the software, music recording and motion picture (produced in high-tech optical media such as CDs, VCDs, DVDs, and CD-ROM), government under the Ministry of Domestic Trade And Consumer Affairs has aggressively controlled the situation by implementing tight regulations and penalties. Recording Industry of Malaysia (RIM) has also agreed to reduce the price of their artist's CDs and VCDs to gain or to capture consumer preferences toward the original albums. For instance, previously, one copy of VCD was sold between RM 35 to RM 50 but nowadays, each album is sold between RM 32.90 to RM 49.90 (for local artist album only).

Government also enforces a new regulation to the seller not to sell CDs and VCDs openly to public such as along the street, bazaar, 'pasar malam' and the like. For instance, the notice on 24th September 2001 by the Ministry of Domestic Trade and Consumer Affairs stated that retailers, distributors, and end-user corporation who are engaged in any illegal activities face severe penalties under the copyright Act 1987 and Trade Description Act 1972. If they are found guilty under mentioned Acts, offenders risk criminal penalties of fines up to RM 10,000 for each unlicensed

software, a jail sentence of up to 5 years or both. That particular statement has shown how concern and how responsive is our government to prevent piracy or counterfeit activities in Malaysia. Recently, Persatuan Karyawan Malaysia (Karyawan), has also suggested the government to follow Singapore to tighten the regulation by implementing mandatory whipping and imprisonment for the seller or supplier of piracy goods (Harian Metro, 17 Sept, 2002).

On the other hand, in response to the action by RIM, supplier of the piracy had reduced their price earlier than those originals from the industry. The price was much cheaper than previous pirated item but the quality remains the same or sometimes much better with technology's advancement. For example for VCDs, or even leather items can easily be bought at the price between RM 3 to RM 10, for not only one but even 4 VCDs. Why consumers still keep buying the products even though they know the consequences of owning the piracy items and the fact that the price of original is much cheaper than previous ones? Of course one of the reason is price. As operating with low investment supplier can offer at the low price and it does not make sense to the marketer to compete, with these "suppliers".

If the statement is true, or government and other NGOs had successfully and continuously monitored the counterfeiting activities in Malaysia, the question is, why piracy items are still available to the customer despite strict preventive action taken by the government? As such, the suggestion on reducing the price on original artist CDs, & VCDs by RIM is to attract the consumer's attention towards original product no longer will be effective.

The best way to understand the reason or potential influence on consumer intention to purchase counterfeited goods is to consider the non-price factors. Understanding the factors will help marketer to better understand on how their consumers behave in the marketplace. The consideration is more on how non-price factors affect consumers to purchase counterfeited goods. As such, this will permit the marketer to restructure or come out with the highly competitive strategy to fight against counterfeits or piracy.

The article by Wee, Ta and Cheok (1995), explores the non-price determinants of consumers' intention to purchase counterfeited goods. The author highlighted only on consumers who knowingly purchase counterfeited goods, and not on consumers who are tricked into buying counterfeited goods in reputable settings. The reason for selecting non-price determinants is because it has been claimed that the price factor is unquestionably one of the most important marketplace cues (Lichtenstein, Ridgway, Netemeyer, 1993). The other reason is not an issue that the branded goods manufacturer should or could address. This is because most counterfeited goods more often are reproductions of branded goods which command high premiums because of their high cost of production and market development, as well as the high quality. Therefore, manufacturers need to know whether there are non-price determinants which prompt consumers toward purchasing counterfeited goods. So that marketer could develop a specific marketing activities aimed at challenging the counterfeiters' price-based offers.

Hence, the focus in this research is on the consumer perspective on who, how, when, where and why consumer buy the counterfeited goods. As such, it is important to

study on how non-price determinants affect or direct consumer's intention and decision to purchase counterfeited or pirated products. For this purpose, factors such as psychographics variables, product attribute variables, and attitude toward counterfeiting and lawfulness will be taken into consideration in undertaking the study at hand.

1.3 Objectives Of The Study

Objectives of the study, can be divided into two; firstly, the general objective and secondly, the specific objectives.

1.3.1 The General Objective

The general objective of the study is to investigate the counterfeiting industry in Malaysia, by examining the consumer attitude toward counterfeited goods and non-price factors that may affect the consumer's intention to purchase the counterfeited good.

This will help us to provide significant data on the reasons why people are still 'loyal' and demand for the counterfeited goods. Understanding the consumer behavior toward counterfeiting will help various interest groups to monitor, control, and implement effective measures in dealing with this illegal business.